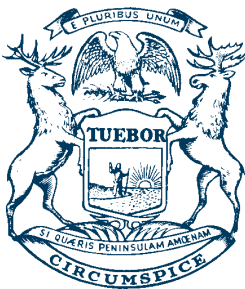




# MICHIGAN

OFFICE OF THE AUDITOR GENERAL

## AUDIT REPORT



THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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# Michigan *Office of the Auditor General* **REPORT SUMMARY**

## *Performance Audit*

### *Use of Transportation-Related Funding*

Report Number:  
591-0105-08

Released:  
September 2008

*Act 345, P.A. 2006, and Act 158, P.A. 2005, require State agencies that receive transportation-related funding for providing tax and fee collection and other services applicable to transportation funds to contract with the Michigan Department of Transportation (MDOT). These agencies are also required to annually report the amount of funding contracted with MDOT, funds expended, funds returned, and unreimbursed costs incurred but not billed to the transportation funds. The Office of the Auditor General is required to report on the use of transportation-related funding.*

#### ***Audit Objective:***

To determine the appropriateness of selected State agencies' charges to transportation funds.

#### ***Audit Conclusion:***

We determined that the charges to transportation funds were generally appropriate for 4 of the 5 selected State agencies. However, we noted one reportable condition (Finding 1).

#### ***Reportable Condition:***

The Department of Treasury did not allocate expenditures to the Michigan Transportation Fund and the State Aeronautics Fund based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act (Sections 207.1001 - 207.1170 of the *Michigan Compiled Laws*). In addition, MDOT needs to improve its review and approval of the cost allocation methodologies developed by State agencies to help ensure that costs for transportation-related activities are

accurately identified and equitably allocated to transportation funds. (Finding 1)

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#### ***Audit Objective:***

To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.

#### ***Audit Conclusion:***

We determined that the selected State agencies generally complied with contractual and reporting requirements for transportation-related funding. Our report does not include any reportable conditions related to this audit objective.

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#### ***Audit Objective:***

To report charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs.

***Audit Conclusion:***

We reported the charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and the unreimbursed costs as supplemental information in this audit report. Our report does not include any reportable conditions related to this audit objective.

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***Agency Response:***

Our audit report contains 1 finding and 2 corresponding recommendations. The Department of Treasury's and MDOT's preliminary responses indicate that they generally agreed with the recommendations.

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A copy of the full report can be  
obtained by calling 517.334.8050  
or by visiting our Web site at:  
<http://audgen.michigan.gov>



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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

September 30, 2008

The Honorable Ron Jelinek, Chair  
Senate Appropriations Committee  
Michigan Senate  
and  
The Honorable George Cushingberry Jr., Chair  
House Appropriations Committee  
Michigan House of Representatives  
State Capitol  
Lansing, Michigan

Dear Senator Jelinek and Representative Cushingberry:

This is our report on the performance audit of the Use of Transportation-Related Funding for the period October 1, 2005 through September 30, 2007, as required by Article 18, Section 306, Act 345, P.A. 2006.

This report contains our report summary; description of funding requirements; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, finding, recommendations, and agency preliminary response; detailed review by State agency and summary schedules of expenditures, services provided, and cost allocation methodologies, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, finding, and recommendations are organized by audit objective. The agency preliminary response was taken from the agencies' responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agencies develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us by the agencies reviewed during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General



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## Description of Funding Requirements

Act 345, P.A. 2006, and Act 158, P.A. 2005 (the annual appropriations acts for the Michigan Department of Transportation [MDOT] for fiscal years 2006-07 and 2005-06, respectively) require State agencies that receive transportation-related funding for providing tax and fee collection and other services applicable to transportation funds to contract with MDOT. The contracts must include estimated costs to be recovered from transportation funds, a description of the services financed by transportation funds, and detailed cost allocation methodologies that are appropriate to the type of services being provided and the activities financed with transportation funds.

Section 504(3) of MDOT's annual appropriations act requires these agencies to annually report the amount of funding contracted with MDOT, funds expended, funds returned, and unreimbursed costs incurred but not billed to the transportation funds.

MDOT's annual appropriations act requires the Office of the Auditor General to conduct a biennial audit of charges to transportation funds by State departments and to prepare a report with recommendations and conclusions. We identified "transportation funds" as those funds classified under "Special Revenue Funds" as "Transportation Related" in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. Transportation funds include the State Aeronautics Fund, State Trunkline Fund (including the Blue Water Bridge Fund and the Economic Development Fund), Michigan Transportation Fund, Comprehensive Transportation Fund, Combined State Trunkline Bond Proceeds Fund, Combined Comprehensive Transportation Bond Proceeds Fund, and Transportation Related Trust Funds. Our audit report includes all contractual and miscellaneous charges from State departments and agencies to these transportation funds.

The Legislature appropriated transportation-related funding of \$47.5 million and \$55.6 million for fiscal years 2006-07 and 2005-06, respectively, with interdepartmental grants to the following 9 State agencies: the Department of State; the Michigan Department of State Police; the Department of Management and Budget; the Department of Treasury; the Civil Service Commission; the Department of Attorney General; the Department of Environmental Quality; the Office of the Auditor General; and the Department of History, Arts and Libraries.

The Legislature also appropriated \$27.9 million and \$27.0 million for fiscal years 2006-07 and 2005-06, respectively, for the Michigan Department of Information Technology. In addition, the Legislature appropriated \$4.7 million and \$4.6 million for fiscal years 2006-07 and 2005-06, respectively, for welcome center operations, which were provided primarily by the Michigan Economic Development Corporation.

MDOT funded contractual and miscellaneous transportation-related expenditures of \$95.6 million and \$93.8 million for fiscal years 2006-07 and 2005-06, respectively (see Exhibits 6 and 7, presented as supplemental information).

## Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

### Audit Objectives

Our performance audit\* of the Use of Transportation-Related Funding had the following objectives:

1. To determine the appropriateness of selected State agencies' charges to transportation funds.
2. To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.
3. To report charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs.

### Audit Scope

Our audit was required by Article 18, Section 306, Act 345, P.A. 2006. Our audit scope was to examine the records supporting transportation-related charges to transportation funds. Our audit included all contractual and miscellaneous charges from State departments and agencies to transportation funds classified under "Special Revenue Funds" as "Transportation Related" in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States except that we were not independent in regard to the Office of the Auditor General. Accordingly, our audit included such tests of the records and such other audit procedures as we considered necessary in the circumstances.

In connection with our audit, we compiled supplemental information about the State agencies' use of transportation-related funding based on information provided by the agencies, the Michigan Department of Transportation (MDOT), and the Michigan Administrative Information Network\* (MAIN). Our audit was not directed toward expressing an opinion on the supplemental information and, accordingly, we express no opinion on it.

\* See glossary at end of report for definition.

### Audit Methodology

Our audit procedures, conducted primarily from February through June 2008, included examination of records and activities for the period October 1, 2005 through September 30, 2007.

Based on a risk analysis, we selected five State agencies (the Michigan Department of Information Technology, Department of State, Michigan Department of State Police, Department of Management and Budget, and Department of Treasury) to review. To determine the appropriateness of selected State agencies' charges to transportation funds, we reviewed the five selected State agencies' material charges for transportation-related expenditures. In addition, we examined the selected State agencies' processes for allocating transportation-related costs to transportation funds.

To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding, we reviewed the five selected State agencies' contracts and annual reports to verify whether they included all of the information required by Article 18, Sections 504(2) and 504(3), Act 345, P.A. 2006.

To report the charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs, we obtained information from MDOT, State agencies, and MAIN accounting records. We verified the State agencies' total transportation-related expenditures to the MAIN accounting records.

We reported the transportation-related costs and unreimbursed costs of State agencies by transportation fund as supplemental information (see Exhibits 6 through 8). We also reported the types of services provided and the cost allocation methodologies of each State agency as supplemental information (see Exhibit 9).

### Agency Responses and Prior Audit Follow-Up

Our audit report contains 1 finding and 2 corresponding recommendations. The Department of Treasury's and MDOT's preliminary responses indicate that they generally agreed with the recommendations.

The agency preliminary response that follows the recommendations in our report was taken from the agencies' written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require the audited

agencies to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

We released our prior performance audit of the Use of Transportation-Related Funding (591-0105-06) in December 2006. Within the scope of this audit, we followed up both prior audit recommendations. The Michigan Department of State Police complied with the prior audit recommendation directed at it. However, the Department of Treasury and MDOT did not comply with the prior audit recommendations directed at them.

COMMENTS, FINDING, RECOMMENDATIONS,  
AND AGENCY PRELIMINARY RESPONSE

## CHARGES TO TRANSPORTATION FUNDS

### COMMENT

**Audit Objective:** To determine the appropriateness of selected State agencies' charges to transportation funds.

**Audit Conclusion:** We determined that the charges to transportation funds were generally appropriate for 4 of the 5 selected State agencies. However, our audit disclosed a reportable condition\* regarding cost allocation methodology (Finding 1).

### FINDING

#### 1. Cost Allocation Methodology

The Department of Treasury did not allocate expenditures to the Michigan Transportation Fund (MTF) and the State Aeronautics Fund (SAF) based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act (Sections 207.1001 - 207.1170 of the *Michigan Compiled Laws*). In addition, the Michigan Department of Transportation (MDOT) needs to improve its review and approval of the cost allocation methodologies developed by State agencies to help ensure that costs for transportation-related activities are accurately identified and equitably allocated to transportation funds. As a result, MDOT could not ensure that payments made to the Department of Treasury were based on actual transportation-related costs.

MDOT's appropriations acts for fiscal years 2006-07 and 2005-06 require that the annual contracts between MDOT and the various State agencies receiving transportation-related funding include detailed cost allocation methodologies that are appropriate to the type of services being provided and the activities financed with transportation funds. Section 247.660(1) of the *Michigan Compiled Laws* (a section of Act 51, P.A. 1951) requires that funds appropriated for necessary expenses be based upon established cost allocation methodologies that reflect actual costs.

We reviewed the cost allocation methodologies used to charge the transportation funds for five State agencies (see the detailed review by State agency in Exhibits 1 through 5, presented as supplemental information).

\* See glossary at end of report for definition.

Our review noted that the Department of Treasury appropriately identified the actual costs it incurred related to its tax collection responsibilities, which included all of the taxes collected by the Department. However, the Department allocated these expenditures to MTF and SAF based on the percentage of transportation-related tax revenue collections to total tax revenue collections. The Department is responsible for collecting several different types of taxes, including sales taxes, use taxes, income taxes, cigarette taxes, and motor fuel taxes. The Department's allocation methodology presumes that its efforts to collect all of the different types of taxes are the same for each type of tax collected. Charges to MTF and SAF should be based on the proportion of the Department's collection efforts (costs) that relate to administering and enforcing the Motor Fuel Tax Act. As a result, the Department did not use an equitable basis to allocate costs of \$7,037,869 and \$7,284,865 to MTF and \$38,010 and \$43,895 to SAF for fiscal years 2006-07 and 2005-06, respectively.

We reported similar conditions in our prior audit report. In response to the prior audit report, the Department of Treasury responded that it agreed with the recommendation and would comply. MDOT also responded that it agreed with the recommendation and would comply but that changes in cost allocation methodologies may not be completely implemented until fiscal year 2007-08 annual contracts. However, the Department of Treasury and MDOT did not implement any changes in the Department of Treasury's cost allocation methodology for fiscal years 2006-07 and 2005-06 or in the fiscal year 2007-08 annual contract.

## **RECOMMENDATIONS**

WE AGAIN RECOMMEND THAT THE DEPARTMENT OF TREASURY ALLOCATE EXPENDITURES TO MTF AND SAF BASED ON THE LEVEL OF ACTIVITY NECESSARY TO ADMINISTER AND ENFORCE THE MOTOR FUEL TAX ACT.

WE ALSO AGAIN RECOMMEND THAT MDOT IMPROVE ITS REVIEW AND APPROVAL OF THE COST ALLOCATION METHODOLOGIES DEVELOPED BY STATE AGENCIES TO HELP ENSURE THAT COSTS FOR TRANSPORTATION-RELATED ACTIVITIES ARE ACCURATELY IDENTIFIED AND EQUITABLY ALLOCATED TO TRANSPORTATION FUNDS.

## **AGENCY PRELIMINARY RESPONSE**

With regard to the first recommendation, the Department of Treasury agreed that charges to MTF and SAF should be based on the proportion of the Department's costs that relate to administering and enforcing the Motor Fuel Tax Act. The Department believes that allocating expenditures based on the percentage of transportation-related collections to total tax collections is a reasonable allocation methodology based on the way that the Department's tax-related functions are organized. In response to prior audit findings, the Department has met with the State's recognized knowledgeable resource for cost allocation methodology. The Department has explored suggested ideas for the process related to the allocation of these costs. It was determined that applying a different cost allocation methodology would not improve the accuracy of the current process. The Department believes that capturing time data for 800 to 1,000 staff who may be working on motor fuel tax returns and resolving issues related to those returns would not be cost effective.

With regard to the second recommendation, MDOT agreed and stated that it continues to improve the review and approval process of State agencies' cost allocation methodologies. Each State agency that receives transportation-related funding signs a memorandum of understanding (MOU) with MDOT. The MOU includes the estimated costs to be reimbursed, a description of the services financed by transportation funds, and a detailed cost allocation methodology appropriate to the type of services being provided and the activities financed with transportation funds. Prior to signing the MOU, MDOT reviews the document for accuracy and completeness. Since the prior audit, MDOT has discussed improvements to the methodology with the Department of Treasury. The Department of Treasury concluded that a different cost allocation methodology would not improve the accuracy of the current process. MDOT has no basis to dispute or support the Department of Treasury's assertions that it cannot develop a more accurate process for determining costs related to services provided for transportation purposes.

MDOT also reported that the State of Michigan, along with MDOT, is in litigation over the propriety of the cost allocation methodologies. The ultimate outcome of this litigation will also help determine cost allocation methodologies used by MDOT with its service providers. MDOT will continue to require that cost allocation

methodologies be part of the MOU and will continue to review and approve the information contained within the MOU prior to signing it.

### **OFFICE OF THE AUDITOR GENERAL EPILOGUE**

In its response to the first recommendation, the Department of Treasury stated that "allocating expenditures based on the percentage of transportation-related collections to total tax collections is a reasonable allocation methodology based on the way that the Department's tax-related functions are organized" and that "applying a different cost allocation methodology would not **improve the accuracy of the current process** [emphasis added]."

However, the Department of Treasury has not provided any documentation that allocating expenditures based on total tax revenues reflects the actual costs to collect motor fuel taxes. This must be done before considering ways to "improve the accuracy of the current process." As stated in the finding, Section 247.660(1) of the *Michigan Compiled Laws* requires that funds appropriated for necessary expenses be based upon cost allocation methodologies that reflect actual costs. The Department of Treasury has not documented that its current cost allocation methodology reflects its actual costs to administer and enforce the Motor Fuel Tax Act.

## **CONTRACTUAL AND REPORTING REQUIREMENTS**

### **COMMENT**

**Audit Objective:** To determine compliance with selected State agencies' contractual and reporting requirements for transportation-related funding.

**Audit Conclusion:** **We determined that the selected State agencies generally complied with contractual and reporting requirements for transportation-related funding.** Our report does not include any reportable conditions related to this audit objective.

## **TRANSPORTATION FUND CHARGES, COST ALLOCATION METHODOLOGIES, AND UNREIMBURSED COSTS**

### **COMMENT**

**Audit Objective:** To report charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and unreimbursed costs.

**Audit Conclusion:** We reported the charges to transportation funds, the cost allocation methodologies used in determining the level of funding, and the unreimbursed costs as supplemental information in this audit report. Our report does not include any reportable conditions related to this audit objective.



## SUPPLEMENTAL INFORMATION

## Description of Supplemental Information

### Section 1 - Detailed Review by State Agency (Exhibits 1 through 5)

We compiled Exhibits 1 through 5 from information contained in the Michigan Administrative Information Network (MAIN) for the fiscal years ended September 30, 2007 and September 30, 2006, the Michigan Department of Transportation's (MDOT's) records related to State agencies' use of transportation-related funding, and State agencies' records. Each detailed review by State agency includes the following information:

- **Interdepartmental Contracts:** This section represents State agencies' expenditures and encumbrances charged to transportation funds. State agencies contracted with MDOT for the use of transportation-related funding appropriated in Article 18, Sections 103, 106, and 107 of both Act 345, P.A. 2006, and Act 158, P.A. 2005.
- **Miscellaneous Charges:** This section represents the transportation-related expenditures that were not specifically appropriated to State agencies in Act 345, P.A. 2006, and Act 158, P.A. 2005, but were charges funded by transportation funds.
- **Unreimbursed Expenditures:** This section includes unreimbursed transportation-related costs incurred but not billed to transportation funds.

### Section 2 - Summary Schedules of Expenditures, Services Provided, and Cost Allocation Methodologies (Exhibits 6 through 9)

- **Summary of State Agencies' Use of Transportation-Related Funding:** This supplemental information summarizes total transportation-related spending by State agency and by transportation fund for the fiscal years ended September 30, 2007 and September 30, 2006 (Exhibits 6 and 7).
- **Summary of Unreimbursed Transportation-Related Expenditures by State Agency:** This supplemental information summarizes unreimbursed transportation-related costs incurred but not billed to transportation funds for the fiscal years ended September 30, 2007 and September 30, 2006 (Exhibit 8).

- Summary of Types of Services Provided and Cost Allocation Methodologies: This supplemental information describes the types of services provided by the State agencies and the cost allocation methodologies used by the State agencies to allocate transportation-related costs during the fiscal years ended September 30, 2007 and September 30, 2006 (Exhibit 9).

USE OF TRANSPORTATION-RELATED FUNDING

Michigan Department of Information Technology

Fiscal Years Ended September 30

	2007	2006
<b>EXPENDITURES AND ENCUMBRANCES</b>		
<b><u>Interdepartmental Contracts</u></b>		
<b>State Trunkline Fund</b>		
Information technology services and contracts	\$ 25,458,811	\$ 26,498,442
<b>State Aeronautics Fund</b>		
Information technology services and contracts	72,027	138,975
<b>Comprehensive Transportation Fund</b>		
Information technology services and contracts	70,220	139,167
<b>Blue Water Bridge Fund</b>		
Information technology services and contracts	33,186	35,919
<b>Economic Development Fund</b>		
Information technology services and contracts	7,467	5,626
Total interdepartmental contracts	<u>\$ 25,641,712</u>	<u>\$ 26,818,129</u>
<b><u>Miscellaneous Charges</u></b>		
<b>State Trunkline Fund</b>		
Information technology services and contracts	\$ 4,211,753	\$ 3,637,074
<b>State Aeronautics Fund</b>		
Information technology services and contracts	23,465	50,958
<b>Comprehensive Transportation Fund</b>		
Information technology services and contracts	128,793	256,052
<b>Blue Water Bridge Fund</b>		
Information technology services and contracts	400	441
<b>Economic Development Fund</b>		
Information technology services and contracts	440	4,614
Total miscellaneous charges	<u>\$ 4,364,850</u>	<u>\$ 3,949,138</u>
<b>TOTAL EXPENDED OR ENCUMBERED</b>	<u><b>\$ 30,006,562</b></u>	<u><b>\$ 30,767,267</b></u>
<b>UNREIMBURSED EXPENDITURES</b>		
<b>TOTAL UNREIMBURSED EXPENDITURES</b>	<u><b>\$ 0</b></u>	<u><b>\$ 0</b></u>

## **Appropriateness of Charges**

- **Interdepartmental Contracts**

The Legislature appropriated information technology (IT) services from transportation funds of \$27.9 million and \$27.0 million for fiscal years 2006-07 and 2005-06, respectively, to the Michigan Department of Information Technology (MDIT). MDIT incurred and encumbered transportation-related costs for administering and implementing IT services of \$25.6 million (including encumbrances of \$1.7 million) and \$26.8 million (including encumbrances of \$5.0 million) in fiscal years 2006-07 and 2005-06, respectively.

MDIT charged the Michigan Department of Transportation (MDOT) for various costs associated with the delivery of IT services. Charges for managing MDOT's IT plans, project management services, and security services were based on actual payroll charges and a proportionate share of support costs. Charges for technical services, data center services, radio equipment, and telecommunications were based on usage at a specified rate per service. Charges for administration, development of IT standards and policies, and strategic planning were allocated as a percentage of MDOT's prior year IT expenditures. Charges for desktop equipment services were allocated based on the number of MDOT's desktop computers. Charges to MDOT for equipment, software, and contractual services purchased by MDIT for MDOT were based on actual costs. Charges for Internet and infrastructure for the Michigan.gov Web site were allocated based on the content count and page views from users. Charges for coordinating geographic information services were allocated based on actual staff hours and a percentage of MDOT's prior year IT expenditures. Charges for procurement and contract management services for fiscal year 2006-07 were included in administration and were allocated as a percentage of MDOT's prior year IT expenditures. Charges for procurement and contract management services for fiscal year 2005-06 were allocated based on actual payroll charges and a proportionate share of support costs based on Data Collection and Distribution System (DCDS) activity. We determined that MDIT's charges for IT services were appropriate.

- **Miscellaneous Charges**

MDIT charged \$4.4 million and \$3.9 million in fiscal years 2006-07 and 2005-06, respectively, for IT services that were charged to funding sources other than the interdepartmental grant, such as federal projects, the Mackinac Bridge, the International Bridge, special projects, and user funding sources for radio and communication equipment.

- **Unreimbursed Expenditures**

MDIT did not report any unreimbursed costs for fiscal years 2006-07 and 2005-06.

USE OF TRANSPORTATION-RELATED FUNDING

Department of State

Fiscal Years Ended September 30

	<u>2007</u>	<u>2006</u>
<b>EXPENDITURES AND ENCUMBRANCES</b>		
<u>Interdepartmental Contracts</u>		
<b>Michigan Transportation Fund</b>		
Collection of transportation taxes and fees	\$ 20,000,000	\$ 20,000,000
Reissue license plates (Note 1)	2,957,306	3,457,673
Total interdepartmental contracts	<u>\$ 22,957,306</u>	<u>\$ 23,457,673</u>
<u>Miscellaneous Charges</u>		
<b>State Trunkline Fund</b>		
Application fees	\$ 85	\$ 25
Total miscellaneous charges	<u>\$ 85</u>	<u>\$ 25</u>
<b>TOTAL EXPENDED OR ENCUMBERED</b>	<u><b>\$ 22,957,391</b></u>	<u><b>\$ 23,457,698</b></u>
 <b>UNREIMBURSED EXPENDITURES</b>		
Collection of transportation taxes and fees	<u>Note 2</u>	<u>\$ 3,908,935</u>
<b>TOTAL UNREIMBURSED EXPENDITURES</b>	<u><b>Note 2</b></u>	<u><b>\$ 3,908,935</b></u>

Note 1: The Legislature appropriated \$11.0 million in fiscal year 2005-06 as a work project. The Department expended \$2,957,306 and \$3,457,673 in fiscal years 2006-07 and 2005-06, respectively. The remaining unexpended balance of \$4,585,021 was carried over to fiscal year 2007-08.

Note 2: Unreimbursed expenditures for fiscal year 2006-07 will be calculated in the Department's annual cost allocation review, which had not been completed at the time of our audit.

**Appropriateness of Charges**

- **Interdepartmental Contracts**

The Legislature appropriated interdepartmental grants from transportation funds of \$20.0 million annually to the Department of State for fiscal years 2006-07 and 2005-06, respectively. The Department charged transportation-related costs to the Michigan Transportation Fund (MTF) of \$20.0 million for each of fiscal years 2006-07 and 2005-06 for administering and enforcing the collection of transportation taxes and fees identified in the Michigan Vehicle Code (Sections 257.801 - 257.810 of the *Michigan Compiled Laws*). Section 247.660(1)

of the *Michigan Compiled Laws* limits total appropriations to the Department, relating to its interdepartmental contract with the Michigan Department of Transportation (MDOT), to \$20.0 million per fiscal year except for fiscal year 2005-06. For fiscal year 2005-06, the Legislature appropriated an additional \$11.0 million as a work project for reissuing license plates. MDOT transferred the \$11.0 million to the Department in fiscal year 2005-06. The Department expended and encumbered \$3.0 million and \$3.5 million for fiscal years 2006-07 and 2005-06, respectively. The remaining balance of \$4.5 million was carried forward as a work project to fiscal year 2007-08.

The Department has two sources of funding for transportation-related costs: its interdepartmental contract with MDOT, which is funded from MTF, and the Transportation Administration Collection Fund, which is funded from vehicle service fees and look-up fees. The vehicle service fees are from revenue collected under Sections 257.801 - 257.810 of the *Michigan Compiled Laws* and, upon appropriation, are to be spent to pay the necessary collection expenses by the Department in the administration and enforcement of Sections 257.801 - 257.810 of the *Michigan Compiled Laws*.

The Department retains an independent consulting firm to conduct an annual cost allocation review to determine actual transportation-related costs from time-and-effort cost studies. The cost allocation review is an after-the-fact analysis used to support the costs charged to MTF and to establish future funding levels. The cost allocation review was not completed for fiscal year 2006-07 at the time of our audit, so we completed analytical review procedures on transportation-related costs.

We determined that the Department's costs charged to MTF for administering and enforcing the collection of transportation taxes and fees for fiscal years 2006-07 and 2005-06 were for appropriate charges.

- **Miscellaneous Charges**

Miscellaneous charges included fees for vehicle title and notary applications.

- **Unreimbursed Expenditures**

The Department's cost allocation review disclosed unreimbursed costs of \$3.9 million for administering and enforcing the collection of transportation taxes

and fees for fiscal year 2005-06. Unreimbursed costs are transportation-related costs that exceed the combined revenue from MTF and the Transportation Administration Collection Fund revenue from vehicle service fees. Unreimbursed costs for fiscal year 2006-07 will be calculated in the annual cost allocation review, which had not been completed at the time of our audit.

USE OF TRANSPORTATION-RELATED FUNDING

Michigan Department of State Police

Fiscal Years Ended September 30

	<u>2007</u>	<u>2006</u>
<b>EXPENDITURES AND ENCUMBRANCES</b>		
<u>Interdepartmental Contracts</u>		
<b>State Trunkline Fund</b>		
Traffic Safety Division - Inspections and enforcement	\$ 6,962,964	\$ 6,601,790
CJIC traffic accident records database	607,694	359,800
Executive Division - Executive support services	375,032	
Traffic Services Section - Statewide field operations	365,551	
Information technology services	59,025	23,465
Human resources	3,275	32,000
Total interdepartmental contracts	<u>\$ 8,373,541</u>	<u>\$ 7,017,055</u>
<u>Miscellaneous Charges</u>		
<b>State Trunkline Fund</b>		
Construction work zone patrols	\$ 469,216	\$ 480,804
Traffic safety summit	4,425	2,660
Training	2,160	13,392
Federal grants expended by MSP	615,981	809,016
Federal grants passed through to other State agencies	1,108,802	
<b>State Aeronautics Fund</b>		
Aviation fuel and rental	82,399	112,034
Total miscellaneous charges	<u>\$ 2,282,983</u>	<u>\$ 1,417,906</u>
<b>TOTAL EXPENDED OR ENCUMBERED</b>	<u><b>\$10,656,524</b></u>	<u><b>\$ 8,434,961</b></u>
<b>UNREIMBURSED EXPENDITURES</b>		
<b>State Trunkline Fund</b>		
CJIC traffic accident records database	\$	\$ 22,495
<b>TOTAL UNREIMBURSED EXPENDITURES</b>	<u><b>\$ 0</b></u>	<u><b>\$ 22,495</b></u>

**Appropriateness of Charges**

- **Interdepartmental Contracts**

The Legislature appropriated interdepartmental grants from transportation funds of \$9.3 million and \$7.7 million to the Michigan Department of State Police (MSP) for fiscal years 2006-07 and 2005-06, respectively. MSP charged transportation-related costs of \$8.4 million (with no encumbrances) and \$7.0 million (including encumbrances of \$24,095) in fiscal years 2006-07 and 2005-06,

respectively, primarily for safety inspections and enforcement activities by the Traffic Safety Division (formerly the Motor Carrier Division).

MSP used its Officer Daily Automated System to identify the percentage of Traffic Safety Division officers' time spent on safety inspections and enforcement activities. These percentages were applied to payroll and indirect costs to determine chargeable expenditures for time spent on safety inspections and enforcement activities for commercial vehicles. These expenditures were then allocated to the three allowable funding sources for these activities: transportation-related funding (through MSP's interdepartmental contract with the Michigan Department of Transportation [MDOT]), motor carrier fees, and a federal grant. We determined that MSP's expenditures for safety inspections and enforcement activities were appropriate charges to transportation-related funding.

Beginning in fiscal year 2006-07, MSP revised its cost allocation methodology for maintaining the traffic accident records database within the Criminal Justice Information Center (CJIC), human resource administration, and information technology services in response to a prior audit recommendation. MSP allocated personnel and operating costs for CJIC to three primary user departments, including MDOT, based on each department's usage of traffic accident records data and equally shared costs for administrative functions. MSP also allocated personnel costs for time spent on human resource services for enforcement activities in the same percentage as enforcement activities in the Traffic Safety Division. MSP allocated information technology services for the Michigan Department of Information Technology's desktop computer charges to the Traffic Safety Division in the same percentage as enforcement activities in the Traffic Safety Division.

In fiscal year 2006-07, MSP included new charges for the Executive Division's executive support services and the Traffic Services Section's Statewide field operations. MSP allocated the Executive Division's executive support staff based on the percentage of time that personnel spent on traffic related activities. MSP allocated costs for the Traffic Services Section's support services as a percentage of staff funded by the State Trunkline Fund. We determined that MSP's expenditures for fiscal year 2006-07 activities were appropriate charges to transportation-related funding.

- **Miscellaneous Charges**

MSP charged expenditures of \$2.3 million and \$1.4 million based on costs or established fees in fiscal years 2006-07 and 2005-06, respectively, for miscellaneous charges for fuel, construction zone work patrols, the traffic safety summit, and training and for federal grants expended by MSP or passed through to other State agencies.

- **Unreimbursed Expenditures**

MSP reported unreimbursed costs of \$22,495 for maintaining the traffic accident records database within CJIC for fiscal year 2005-06.

USE OF TRANSPORTATION-RELATED FUNDING

Department of Management and Budget

Fiscal Years Ended September 30

	<u>2007</u>	<u>2006</u>
<b>EXPENDITURES AND ENCUMBRANCES</b>		
<b><u>Interdepartmental Contracts</u></b>		
<b>State Trunkline Fund</b>		
Central support services	\$ 1,320,300	\$ 1,221,300
MAIN user charges (*)	917,300	1,119,400
<b>Michigan Transportation Fund</b>		
MAIN user charges (*)	55,400	347,000
<b>State Aeronautics Fund</b>		
Central support services	37,300	32,600
MAIN user charges (*)	25,900	29,900
<b>Comprehensive Transportation Fund</b>		
Central support services	60,400	61,900
MAIN user charges (*)	41,900	56,700
Total interdepartmental contracts	<u>\$ 2,458,500</u>	<u>\$ 2,868,800</u>
<b><u>Miscellaneous Charges</u></b>		
<b>State Trunkline Fund</b>		
Building occupancy charges	\$ 4,906,854	\$ 4,020,762
Motor Transport Fund	841,138	1,594,833
Office Services Revolving Fund	849,856	1,119,290
Risk Management Fund	314,451	690,634
Other fees and services	423,630	295,704
<b>State Aeronautics Fund</b>		
Motor Transport Fund	23,066	34,921
Office Services Revolving Fund	83,463	81,701
Risk Management Fund	5,173	
Other fees and services	166	
<b>Comprehensive Transportation Fund</b>		
Motor Transport Fund	67,517	110,274
Office Services Revolving Fund	20,873	16,971
Risk Management Fund	3,730	10,416
Other fees and services	349	
<b>Blue Water Bridge Fund</b>		
Motor Transport Fund	10,293	15,679
Office Services Revolving Fund	2,653	1,254
Risk Management Fund	2,740	7,752

	2007	2006
<b>Economic Development Fund</b>		
Motor Transport Fund	634	990
Office Services Revolving Fund	816	721
Total miscellaneous charges	<u>\$ 7,557,402</u>	<u>\$ 8,001,902</u>
<b>TOTAL EXPENDED OR ENCUMBERED</b>	<b><u>\$ 10,015,902</u></b>	<b><u>\$ 10,870,702</u></b>
<b>UNREIMBURSED EXPENDITURES</b>		
<b>State Trunkline Fund</b>		
Building occupancy charges	\$ 1,130,193	\$ 1,447,668
Central support services		192,048
MAIN user charges	464,845	729,695
<b>Michigan Transportation Fund</b>		
Central support services	167,651	187,176
MAIN user charges	86,870	93,196
<b>State Aeronautics Fund</b>		
Central support services		11,544
MAIN user charges	6,425	
<b>Comprehensive Transportation Fund</b>		
MAIN user charges	2,496	8,924
<b>Blue Water Bridge Fund</b>		
Central support services	15,673	15,886
MAIN user charges	17,291	21,073
<b>Combined State Trunkline Bond Proceeds Fund</b>		
Central support services	120,532	53,823
MAIN user charges	132,974	71,403
<b>Transportation Related Trust Funds</b>		
Central support services	2,747	2,688
MAIN user charges	3,035	3,564
<b>TOTAL UNREIMBURSED EXPENDITURES</b>	<b><u>\$ 2,150,732</u></b>	<b><u>\$ 2,838,688</u></b>

\* These Michigan Administrative Information Network (MAIN) user charges were reduced in fiscal year 2006-07 because of an executive order reduction.

### **Appropriateness of Charges**

- **Interdepartmental Contracts**

The Legislature appropriated interdepartmental grants from transportation funds of \$1.5 million and \$1.3 million for central support costs to the Department of Management and Budget (DMB) for fiscal years 2006-07 and 2005-06, respectively. In addition to the appropriated interdepartmental grant amounts, the annual contract between DMB and the Michigan Department of Transportation (MDOT) included \$1.3 million and \$1.6 million for Michigan Administration Information Network (MAIN) user charges, which are appropriated Statewide, for

fiscal years 2006-07 and 2005-06, respectively. DMB incurred transportation-related costs of \$2.5 million and \$2.9 million for fiscal years 2006-07 and 2005-06, respectively, for central support services and MAIN user charges. Central support services included financial management, real estate, mail and delivery, purchasing, State employer services, and budgetary services. DMB used the most recent Statewide Cost Allocation Plan\* (SWCAP) to allocate estimated costs for central support services and MAIN user charges to the transportation funds. We determined that DMB costs for central support services and MAIN user charges were appropriate charges to transportation funds.

- **Miscellaneous Charges**

DMB charged building occupancy costs of \$4.9 million and \$4.0 million for fiscal years 2006-07 and 2005-06, respectively, to the State Trunkline Fund for all buildings occupied by MDOT personnel. Building occupancy costs are allocated through SWCAP based on estimated costs per square foot. We determined that DMB costs for building occupancy charged to transportation funds were for appropriate charges.

DMB charged actual costs of \$2.2 million and \$3.7 million to the transportation funds for services provided by internal service funds for fiscal years 2006-07 and 2005-06, respectively. The Motor Transport Fund provides vehicle and travel services. The Office Services Revolving Fund provides services such as printing, reproduction, mailing, microfilm, distribution of surplus property, and materials management. The Risk Management Fund accounts for certain centralized risk management functions. DMB charged actual expenditures of \$0.4 million and \$0.3 million for other fees and services, including project supervision, parking, and facility management, for fiscal years 2006-07 and 2005-06, respectively.

- **Unreimbursed Expenditures**

A comparison of actual SWCAP costs to amounts charged to transportation funds disclosed unreimbursed costs for DMB central support services, MAIN user charges, and building occupancy costs of \$2.2 million and \$2.8 million for fiscal years 2006-07 and 2005-06, respectively.

\* See glossary at end of report for definition.

USE OF TRANSPORTATION-RELATED FUNDING

Department of Treasury  
Fiscal Years Ended September 30

	<u>2007</u>	<u>2006</u>
<b>EXPENDITURES AND ENCUMBRANCES</b>		
<b><u>Interdepartmental Contracts</u></b>		
<b>State Trunkline Fund</b>		
Investment services	\$ 212,900	\$ 183,900
<b>Michigan Transportation Fund</b>		
Collection and audit activities of motor fuel taxes	7,037,869	7,284,865
Information technology services	446,600	427,400
<b>State Aeronautics Fund</b>		
Collection and audit activities of aviation fuel taxes	38,010	43,895
Investment services	9,600	11,400
<b>Comprehensive Transportation Fund</b>		
Investment services	2,400	4,800
Total interdepartmental contracts	<u>\$ 7,747,379</u>	<u>\$ 7,956,260</u>
<b><u>Miscellaneous Charges</u></b>		
<b>State Trunkline Fund</b>		
Delinquent property purchase	\$ 900	\$
Manual warrant fees	90	192
<b>State Aeronautics Fund</b>		
Subscription fees		480
<b>Blue Water Bridge Fund</b>		
Investment services	7,800	7,400
<b>Combined Comprehensive Transportation Bond Proceeds Fund</b>		
Investment services	27,000	35,100
<b>Combined State Trunkline Bond Proceeds Fund</b>		
Investment services	66,700	64,800
<b>Transportation Related Trust Funds</b>		
Investment services	2,800	6,900
Total miscellaneous charges	<u>\$ 105,290</u>	<u>\$ 114,872</u>
<b>TOTAL EXPENDED OR ENCUMBERED</b>	<u><b>\$ 7,852,669</b></u>	<u><b>\$ 8,071,132</b></u>
<b>UNREIMBURSED EXPENDITURES</b>		
<b>State Trunkline Fund</b>		
Investment services	\$	\$ 2,400
<b>Michigan Transportation Fund</b>		
Wire transfer fees	1,303	1,243
<b>Comprehensive Transportation Fund</b>		
Investment services		100
<b>TOTAL UNREIMBURSED EXPENDITURES</b>	<u><b>\$ 1,303</b></u>	<u><b>\$ 3,743</b></u>

## **Appropriateness of Charges**

- **Interdepartmental Contracts**

The Legislature appropriated interdepartmental grants from transportation funds of \$9.0 million and \$8.5 million to the Department of Treasury for fiscal years 2006-07 and 2005-06, respectively. The Department incurred and encumbered transportation-related costs of \$7.7 million (including encumbrances of \$34,460) and \$8.0 million (with no encumbrances) in fiscal years 2006-07 and 2005-06, respectively, for administering and enforcing the Motor Fuel Tax Act for the Michigan Department of Transportation (MDOT).

The Department appropriately identified the actual costs it incurred related to its tax collection responsibilities, which included all of the taxes collected by the Department. However, the Department allocated these expenditures to the Michigan Transportation Fund (MTF) and the State Aeronautics Fund (SAF) based on the percentage of transportation-related tax revenue collections to total tax revenue collections. The Department is responsible for collecting several different types of taxes, including sales taxes, use taxes, income taxes, cigarette taxes, and motor fuel taxes. The Department's allocation methodology presumes that its efforts to collect all of the different types of taxes are the same for each type of tax collected. Charges to MTF and SAF should be based on the proportion of the Department's collection efforts (costs) that relate to administering and enforcing the Motor Fuel Tax Act. As a result, the Department did not use an equitable basis to allocate costs of \$7,037,869 and \$7,284,865 to MTF and \$38,010 and \$43,895 to SAF for fiscal years 2006-07 and 2005-06, respectively (Finding 1).

Charges for investment services were allocated based on the percentage of the transportation funds' investment balances to total investment balances applied to the cost of investing activities. We determined that the charges for investment services were appropriate.

The Department charged actual costs for information technology services, which related to the motor fuel diesel simplification project.

- **Miscellaneous Charges**

The Department charged costs of \$105,290 and \$114,872 in fiscal years 2006-07 and 2005-06, respectively, for investment services and miscellaneous fees. Charges for investment services were allocated based on the percentage of the

transportation funds' investment balances to total investment balances applied to the cost of investing activities.

- **Unreimbursed Expenditures**

The Department incurred unreimbursed costs of \$1,303 and \$3,743 for investment services and wire transfer fees in fiscal years 2006-07 and 2005-06, respectively.

USE OF TRANSPORTATION-RELATED FUNDING  
Summary of State Agencies' Use of Transportation-Related Funding  
Fiscal Year Ended September 30, 2007

Receiving State Agency	Charges Paid by Fund				
	State Trunkline	Michigan Transportation	State Aeronautics	Comprehensive Transportation	Blue Water Bridge
Michigan Department of Information Technology	\$ 29,670,564	\$	\$ 95,492	\$ 199,013	\$ 33,586
Department of State	85	22,957,306			
Michigan Department of State Police	10,574,125		82,399		
Department of Management and Budget	9,573,529	55,400	175,068	194,769	15,686
Department of Treasury	213,890	7,484,469	47,610	2,400	7,800
Michigan Economic Development Corporation	4,263,051				
Civil Service Commission *	2,366,645		46,858	72,927	22,796
Department of Attorney General	2,136,554		101,754	121,390	
Department of Natural Resources	18,660			1,593	
Department of Environmental Quality	108,338	994,202	22,922	15,000	
Office of the Auditor General	657,037	204,300	41,410	29,834	
Department of History, Arts and Libraries and Mackinac Island State Park Commission	363,527		293,900	3,400	
Department of Corrections	470,857		2,160		
Department of Labor and Economic Growth	62,169		250	109	160
Michigan Department of Agriculture	1,692				
Judiciary	1,410				
Legislative Service Bureau	171				
Total for State agencies	<u>\$ 60,482,304</u>	<u>\$ 31,695,677</u>	<u>\$ 909,823</u>	<u>\$ 640,436</u>	<u>\$ 80,027</u>

\* Effective August 26, 2007, the Department of Civil Service was abolished by Executive Order No. 2007-30. The executive order also transferred all of the powers, duties, functions, and responsibilities of the Department of Civil Service to the Civil Service Commission. In addition, the executive order transferred the Civil Service Commission, as an autonomous entity, to the Department of Management and Budget.

## Exhibit 6

Combined Comprehensive Transportation Bond Proceeds	Combined State Trunkline Bond Proceeds	Economic Development	Transportation Related Trust	Agency Total
\$	\$	\$ 7,907	\$	\$ 30,006,562
				22,957,391
				10,656,524
		1,450		10,015,902
27,000	66,700		2,800	7,852,669
				4,263,051
		284		2,509,510
				2,359,698
			1,632,836	1,653,089
				1,140,462
				932,581
64,200				725,027
	5,120			478,137
				62,688
				1,692
				1,410
	276			447
<u>\$ 91,200</u>	<u>\$ 72,096</u>	<u>\$ 9,641</u>	<u>\$ 1,635,636</u>	<u>\$ 95,616,840</u>

USE OF TRANSPORTATION-RELATED FUNDING  
Summary of State Agencies' Use of Transportation-Related Funding  
Fiscal Year Ended September 30, 2006

Receiving State Agency	Charges Paid by Fund				
	State Trunkline	Michigan Transportation	State Aeronautics	Comprehensive Transportation	Blue Water Bridge
Michigan Department of Information Technology	\$ 30,135,516	\$	\$ 189,933	\$ 395,219	\$ 36,360
Department of State	25	23,457,673			
Michigan Department of State Police	8,322,927		112,034		
Department of Management and Budget	10,061,923	347,000	179,122	256,261	24,685
Department of Treasury	184,092	7,712,265	55,775	4,800	7,400
Michigan Economic Development Corporation	4,131,410				
Civil Service Commission *	2,635,512		48,193	74,481	23,009
Department of Attorney General	2,359,230		100,701	130,559	
Department of Natural Resources	6,700				
Department of Environmental Quality	249,329	983,965	16,219		
Office of the Auditor General	260,400	167,600	19,600	25,200	
Department of History, Arts and Libraries and Mackinac Island State Park Commission	247,689		136,037	6,300	
Department of Corrections	454,248		2,250		123
Department of Labor and Economic Growth	58,081		253		935
Michigan Department of Agriculture	1,579				
Judiciary	4,525			300	
Legislative Service Bureau	239				
Total for State agencies	<u>\$ 59,113,424</u>	<u>\$ 32,668,503</u>	<u>\$ 860,117</u>	<u>\$ 893,120</u>	<u>\$ 92,512</u>

\* Effective August 26, 2007, the Department of Civil Service was abolished by Executive Order No. 2007-30. The executive order also transferred all of the powers, duties, functions, and responsibilities of the Department of Civil Service to the Civil Service Commission. In addition, the executive order transferred the Civil Service Commission, as an autonomous entity, to the Department of Management and Budget.

Exhibit 7

Combined Comprehensive Transportation Bond Proceeds	Combined State Trunkline Bond Proceeds	Economic Development	Transportation Related Trust	Agency Total
\$	\$	\$ 10,240	\$	\$ 30,767,267
				23,457,698
				8,434,961
		1,711		10,870,702
35,100	64,800		6,900	8,071,132
				4,131,410
		266		2,781,461
				2,590,490
			29,933	36,633
				1,249,514
				472,800
				390,025
	3,131			459,751
				59,269
				1,579
	850			5,675
250	259			749
<u>\$ 35,350</u>	<u>\$ 69,040</u>	<u>\$ 12,216</u>	<u>\$ 36,833</u>	<u>\$ 93,781,115</u>

USE OF TRANSPORTATION-RELATED FUNDING

Summary of Unreimbursed Transportation-Related Expenditures by State Agency  
Fiscal Years Ended September 30

<u>Receiving State Agency</u>	<u>2007</u>	<u>2006</u>
Department of State	\$ *	\$ 3,908,935
Michigan Department of State Police		22,495
Department of Management and Budget	2,150,732	2,838,688
Department of Treasury	<u>1,303</u>	<u>3,743</u>
Total for State agencies	<u>\$ 2,152,035</u>	<u>\$ 6,773,861</u>

\* Unreimbursed expenditures for fiscal year 2006-07 will be calculated in the Department of State's annual cost allocation review, which had not been completed at the time of our audit.

**USE OF TRANSPORTATION-RELATED FUNDING****Summary of Types of Services Provided and Cost Allocation Methodologies**  
**Fiscal Years Ended September 30, 2007 and September 30, 2006****Michigan Department of Information Technology (MDIT)**

MDIT charged the Michigan Department of Transportation (MDOT) for various costs associated with the delivery of information technology (IT) services. Charges for managing MDOT's IT plans, project management services, and security services were based on actual payroll charges and a proportionate share of support costs. Charges for technical services, data center services, radio equipment, and telecommunications were based on usage at a specified rate per service. Charges for administration, development of IT standards and policies, and strategic planning were allocated as a percentage of MDOT's prior year IT expenditures. Charges for desktop equipment services were allocated based on the number of MDOT's desktop computers. Charges to MDOT for equipment, software, and contractual services purchased by MDIT for MDOT were based on actual costs. Charges for Internet and infrastructure for the Michigan.gov Web site were allocated based on the content count and page views from users. Charges for coordinating geographic information services were allocated based on actual staff hours and a percentage of MDOT's prior year IT expenditures. Charges for procurement and contract management services for fiscal year 2006-07 were included in administration and were allocated as a percentage of MDOT's prior year IT expenditures. Charges for procurement and contract management services for fiscal year 2005-06 were allocated based on actual payroll charges and a proportionate share of support costs based on Data Collection and Distribution System (DCDS) activity.

**Department of State**

The Department of State collected and processed transportation taxes and fees and provided other transportation-related activities for the administration and enforcement of the Michigan Vehicle Code (Sections 257.801 - 257.810 of the *Michigan Compiled Laws*). The Department retains an independent consulting firm to conduct an annual cost allocation review to determine actual transportation-related costs from time-and-effort cost studies. The cost allocation review is an after-the-fact analysis used to support the costs charged to the Michigan Transportation Fund and to establish future funding levels.

In addition, the Department charged fees for vehicle title and notary applications to transportation funds.

### **Michigan Department of State Police (MSP)**

MSP's Traffic Safety Division (formerly the Motor Carrier Division) conducted safety inspections and enforcement activities for commercial vehicles. MSP used its Officer Daily Automated System to identify the percentage of Traffic Safety Division officers' time spent on safety inspections and enforcement activities. These percentages were applied to payroll and indirect costs to determine chargeable expenditures for time spent on safety inspections and enforcement activities for commercial vehicles. These expenditures were then allocated to the three allowable funding sources for these activities: transportation-related funding (through MSP's interdepartmental contract with MDOT), motor carrier fees, and a federal grant.

Beginning in fiscal year 2006-07, MSP revised its cost allocation methodology for maintaining the traffic accident records database within the Criminal Justice Information Center (CJIC), human resource administration, and IT services in response to a prior audit recommendation. MSP allocated personnel and operating costs for CJIC to three primary user departments, including MDOT, based on each department's usage of traffic accident records data and equally shared costs for administrative functions. MSP also allocated personnel costs for time spent on human resource services for enforcement activities in the same percentage as enforcement activities in the Traffic Safety Division. MSP allocated IT services for MDIT's desktop computer charges to the Traffic Safety Division in the same percentage as enforcement activities in the Traffic Safety Division.

In fiscal year 2006-07, MSP included new charges for the Executive Division's executive support services and the Traffic Services Section's Statewide field operations. MSP allocated the Executive Division's executive support staff based on the percentage of time that personnel spent on traffic related activities. MSP allocated costs for the Traffic Services Section's support services as a percentage of staff funded by the State Trunkline Fund.

MSP also charged expenditures for fuel, construction zone work patrols, the traffic safety summit, and training based on costs or established fees and for federal grants expended by MSP or passed through to other State agencies.

### **Department of Management and Budget (DMB)**

DMB provided central support services and Michigan Administrative Information Network (MAIN) user charges. Central support services included financial management, real estate, mail and delivery, purchasing, State employer services, and budgetary services. DMB used the most recent Statewide Cost Allocation Plan (SWCAP) to allocate estimated costs for central support services and MAIN user charges to the transportation funds.

DMB also provided building occupancy services for all buildings occupied by MDOT personnel. Building occupancy costs are allocated through SWCAP based on estimated costs per square foot.

In addition, DMB provided services from internal service funds. Charges for these services are based on costs or established fees. These services included vehicle and travel services from the Motor Transport Fund; printing, reproduction, mailing, microfilm, distribution of surplus property, and materials management from the Office Services Revolving Fund; and centralized risk management functions from the Risk Management Fund.

Further, DMB provided other services for which charges were based on actual expenditures including project supervision, parking, and facility management.

### **Department of Treasury**

The Department of Treasury provided collection and auditing of motor and aviation fuel taxes for the administration and enforcement of the Motor Fuel Tax Act to the Michigan Transportation Fund and the State Aeronautics Fund. The Department allocated the administration and enforcement costs as a percentage of transportation-related tax revenue collections to total tax revenue collections applied to total costs for administration and enforcement activities for all taxes.

The Department also provided investment services. Investment services were allocated based on the percentage of the transportation funds' investment balances to total investment balances applied to the cost of investing activities.

In addition, the Department charged actual costs for IT services, which related to the motor fuel diesel simplification project. Further, the Department charged costs for miscellaneous fees.

### **Michigan Economic Development Corporation**

The Michigan Economic Development Corporation provided administration for the daily operations of the State welcome centers, including staffing, custodial services, equipment, supplies, vendor services, utilities, telecommunications, and ground maintenance materials. The Michigan Economic Development Corporation's charges were based on actual costs for these services.

### **Civil Service Commission**

The Civil Service Commission provided assistance and support for classified State employees. The Commission allocated these costs based on the constitutionally required 1% of the aggregate payroll of the preceding year associated with the transportation funds.

The Commission also charged user fees for its Human Resources Service Center, which is the central information source for personnel and human resource questions or transaction processing. User fees were allocated to departments proportionally based on their share of total State employees.

In addition, the Commission charged expenditures for training and administrative costs for flexible spending accounts based on costs or established fees.

Effective August 26, 2007, the Department of Civil Service was abolished by Executive Order No. 2007-30. The executive order also transferred all of the powers, duties, functions, and responsibilities of the Department of Civil Service to the Civil Service Commission. In addition, the executive order transferred the Civil Service Commission, as an autonomous entity, to DMB.

### **Department of Attorney General**

The Department of Attorney General provided legal consultation, representation, and other services. The salaries, insurance, and retirement costs of the attorneys assigned to the Transportation Division were allocated to the transportation funds based on an annual time study of legal work performed.

Also, the Department of Attorney General charged and was reimbursed for building rent and travel costs for the Transportation Division attorneys.

### **Department of Natural Resources**

The Department of Natural Resources was reimbursed for expenditures for land grants, easement considerations, and conference center rental based on costs or established fees.

### **Department of Environmental Quality**

The Department of Environmental Quality provided permits and permit reviews and coordinated environmental reviews and informal resolution of enforcement issues for transportation and aeronautics projects. Salaries, fringe benefits, assessments, training, travel, equipment, and supplies for personnel assigned to transportation projects were allocated based on a time-and-effort system.

In addition, the Department of Environmental Quality provided various services to MDOT that were charged to transportation funds, including the testing of water samples, issuance of permits, and training. The charges for these services were based on costs or established fees.

### **Office of the Auditor General**

The Office of the Auditor General conducted audits of transportation programs and funds. The Office of the Auditor General allocated charges based on a time-and-effort reporting system that identified the actual hours spent on transportation audits, adjusted for costs carried forward from the prior year.

### **Department of History, Arts and Libraries (HAL) and Mackinac Island State Park Commission**

HAL provided storage and retrieval of inactive records at the State Records Center. HAL used the most recent SWCAP to allocate estimated Records Center costs to the transportation funds. Records Center costs are allocated based on total storage volume and the number of records retrieved.

In addition, MDOT contracted with HAL and the Mackinac Island State Park Commission to manage various transportation projects, maintain Mackinac Island roads, and maintain the Mackinac Island airport. Charges for contracted amounts were based on historical costs, actual costs, or a portion of the costs for joint projects. HAL also provided services for microfilm records management based on costs or established fees .

### **Department of Corrections**

The Department of Corrections was reimbursed for expenditures for roadside cleanup and for MDOT purchases from the Correctional Industries Revolving Fund based on costs or established fees.

### **Department of Labor and Economic Growth**

The Department of Labor and Economic Growth was reimbursed for expenditures for permits, licenses, inspections, plan reviews, hearing transcripts, administrative hearings, and procurement initiatives based on costs or established fees.

### **Michigan Department of Agriculture**

The Michigan Department of Agriculture was reimbursed for expenditures for licenses, seed analysis, certifications, and event participation based on costs or established fees.

### **Judiciary**

The Judiciary was reimbursed for expenditures for filing appeals to courts based on costs or established fees.

### **Legislative Service Bureau**

The Legislative Service Bureau was reimbursed for expenditures for copies, manuals, and event participation based on costs or established fees.

# GLOSSARY

## Glossary of Acronyms and Terms

CJIC	Criminal Justice Information Center.
DMB	Department of Management and Budget.
HAL	Department of History, Arts and Libraries.
IT	information technology.
MDIT	Michigan Department of Information Technology.
MDOT	Michigan Department of Transportation.
Michigan Administrative Information Network (MAIN)	The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).
MOU	memorandum of understanding.
MSP	Michigan Department of State Police.
MTF	Michigan Transportation Fund.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
SAF	State Aeronautics Fund.
Statewide Cost Allocation Plan (SWCAP)	The official cost allocation methodology accepted by federal grantor agencies for the State's negotiated indirect cost rate.









